

Internal Revenue Service

Department of the Treasury

District  
Director

Date: FEB 11 1993

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(7) of the Internal Revenue Code.

You were incorporated on [REDACTED], under the non-profit corporation act of the State of [REDACTED]. Your articles of incorporation state you are organized for the purpose or purposes of encouraging and promoting the breeding of pure-bred dogs through education by and through the auspices of the corporation to include but not be limited to seminars, demonstrations, shows and contests. You promote, sponsor and encourage the development of the natural qualities of pure-bred dogs striving for perfection in breeding, handling, education and training, and to protect and advance the interests of pure-bred dog owners in the continuation of this ownership. You will sponsor, support and otherwise assist in these endeavors with sportsman-like competitions at dog shows and obedience training.

Your activities as stated in your application are encouraging and promoting the breeding of pure-bred dogs through education, shows and seminars. You sponsor All-Breed, pure-bred dog shows and matches which are open to the public. The dog shows and matches receive entries from all over the country and are your biggest fund raisers. You carry out some activities that may be considered charitable in nature by members on a volunteer basis and make limited contributions.

Your sources of financial support are from dues, show and match income, investment income and other income. The primary source of support is from the conduct of dog shows and matches which includes entry fees, catalog sales and advertising, booth space, concessions and admissions and parking.

On the Form 1024 application, Schedule D, you state: "██████████ has █████ AKC Registered Dog Shows and █████ Match per year, and plans to seek public patronage for these events by advertisements." The Schedule D shows that █████% of the \$██████████ listed under Line 3b is from nonmember sources. Of the total gross income for the year █████, █████% is from nonmember income.

Year	Total Receipts	%Member Dues	%Show-Match Receipts
██████████	\$██████████	██████████%	██████████%
	\$██████████	██████████%	██████████%
	\$██████████	██████████%	██████████%
	\$██████████	██████████%	██████████%

The income statement information for █████ is incomplete. The club receives a small amount of income from interest and "other income". Only a very small percentage of the gross annual income is distributed for charitable purposes.

Section 501(c)(7) of the Internal Revenue Code provides exemption for:

"Clubs organized for pleasure, recreation and other nonprofitable purposes, substantially all of the activities of which are for such purposes and no part of the net earnings of which inures to the benefit of any private shareholder."

Section 1.501(c)(7)-1 of the regulations provides, in part, as follows:

"(a) The exemption provided by section 501(a) for organizations described in section 501(c)(7) applies only to clubs which are organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, but does not apply to any club if any part of its net earnings inures to the benefit of any private shareholder. In general, this exemption extends to social and recreation clubs which are supported solely by membership fees, dues, and assessments. However, a club otherwise entitled to exemption will not be disqualified because it raises revenue from members through the use of club facilities or in connection with club activities."

"(b) A club which engages in business, such as making its social and recreational facilities available to the general public or by selling real estate, timber, or other products, is not organized and operated exclusively for pleasure, recreation, and other nonprofitable purposes, and is not exempt under section 501(a). Solicitation by advertisement or otherwise for public patronage.

of its facilities is prima facie evidence that the club is engaging in business and is not being operated exclusively for pleasure, recreation, or social purposes. However, an incidental sale of property will not deprive a club of its exemption."

Public Law 94-568, Senate report Number 74-1318, 2d session, 1979-2 C.B. 596, states IRC section 501(c)(7) Social Clubs may receive up to 35 percent of their gross receipts, including investment income, from sources outside their membership without jeopardizing their exempt status. Within the 35 percent limitation, no more than 15 percent of gross receipts may be derived from use of club facilities, services or participation.

Revenue Ruling 58-589, 1958-2, C.B. 266, states that for an organization to be described within the provisions of section 501(c)(7) of the Code, all facts pertaining to its form of organization, method of operation and activities should be considered. An organization must establish, (1) that it is a club, both organized and operated, exclusively for pleasure, recreation and other non-profitable purposes, and (2) that no part of its net earnings inures to the benefit of any private shareholder or individual. A club which engages in business, such as making its social and recreational facilities available to the general public may not be considered as being organized and operated exclusively for pleasure, recreation or social purposes. Public patronage and participation in club activities is permissible if incidental to and in furtherance of the club's purpose, and if the net income therefrom does not inure to club members.

Revenue Ruling 65-63, 1965-1, C.B. 240, states a nonprofit organization that, in conducting dog shows and events for the pleasure and recreation of its members, permits the general public to attend such shows and events for a fee on a recurring basis and solicits patronage by advertising does not qualify for exemption as a club organized exclusively for pleasure, recreation and other non-profitable purposes under IRC section 501(c)(7).

You allow public patronage and participation in your activities. Such participation is substantial and recurrent. You have not provided information that shows the breakdown of income by members, the general public or clubs of a like nature but you state that substantially all your annual gross income is from outside the membership. You exceed the 15 percent limitation as set forth in

Public law 94-588. You are generating considerable nonmember income that inures to the benefit of your members and subsequently is subsidizing the club's activities. Thus, you are operating in a manner similar to the organization described in Revenue ruling 85-63, 1965-1 C.B. 240, which was denied exemption under IRC section 501(c)(7). Accordingly, it is held that you are not entitled to exemption from Federal income tax as an organization described in section 501(c)(7) of the Internal Revenue Code and you are required to file Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any further questions, please contact the person whose name and telephone number are shown at the beginning of this letter.

Sincerely,

District Director

Enclosures:  
Publication 892  
Form 6018